

Development Alternatives, Inc.
Tbilisi, Georgia
D. E. "Skip" Chilberg
October 10 – 21, 2005

Georgian Foundation for Strategic and International Studies

Recommendations for Sustainability

Background:

Development Alternatives, Inc. has been contracted to evaluate the administrative capacity of the Georgian Foundation for Strategic and International Studies (GFSIS), and to make recommendations for strengthening its sustainability, including recommendations to establish a sustainable funding base. This report is based on consultation with staff at GFSIS, principally Mr. Temuri Yakobashvili, Executive Vice President, and Ms. Nino Ramishvili, Director of Finance, at the offices of GFSIS in October, 2005.

GFSIS is a "think tank", similar in purpose to the familiar Brookings Institute or Rand Corporation, but on a much smaller scale. They have a clear sense of "who they are", with a commitment to honesty and integrity. They are not an advocacy organization, nor a government "watchdog". Their mission is to influence decision making by (1) providing advice to senior government officials; (2) providing training to second tier decision makers; (3) in-depth training of journalists on significant issues; and (4) providing roundtable discussions and conferences for decision makers, offering an opportunity for networking and issue development. GFSIS has a core staff for administration as well as a permanent staff of Research Fellows, supplemented by Junior Fellows and interns, as well as project-specific staff.

GFSIS is organized under Georgia law as a "Foundation", registered with the Minister of Justice. Georgia law requires that a Foundation have an Executive Board and an Advisory Board. The Executive Board for GFSIS is the President, Dr. Alexander Rondeli, and the Executive Vice President, Mr. Temuri Yakobashvili. Although ten persons, distinguished in their respective fields around the world, have been selected to serve on an Advisory Board, the Advisory Board has been inactive.

Although established a few years earlier, GFSIS began functioning as a "think tank" in 2001, with a small contract from the Rand Corporation. In just over four years, the organization has grown to an annual budget of over \$1,750,000 and a permanent staff of approximately 10 people, plus additional staff as required for specific projects. GFSIS also hosts several Junior Fellows and interns, individuals who are pursuing advanced studies. This rapid growth has placed strains on the organization, with administrative systems unable to keep up with the demands of what has become a complex organization.

GFSIS has attracted highly skilled and dedicated staff, as well as Senior Fellows who are recognized experts in their respective fields. The organization enjoys an excellent reputation for competence, whose services are in demand both within Georgia and within the region. The leadership of GFSIS exhibits tremendous capability demonstrated simply by the growth of the organization over the past four years. However, this report will not focus on strengths; rather, it will focus on areas which must be addressed to sustain the organization, and bring it to a higher level of capacity. The leadership of GFSIS readily acknowledges the need for strengthening, and seeks advice and assistance in accomplishing the needed improvements. The recommendations address both administrative and funding issues.

Recommendations:

Administrative

1. Budgeting and Accounting

GFSIS currently is funded by 12 separate contracts, each with requirements for separate expenditure identification. Some of these "donors" place limitations on the amount allowed to be charged to administrative overhead. All, of course, require detailed accounting, with receipts, for each dollar spent under that contract. Responding to those demands has become extremely difficult as the organization has become more complex. Examples abound: a. By requiring receipts for every expenditure, GFSIS sometimes pays a great deal more for an item than if the item were purchased without a receipt. b. Tracking expenditures for gasoline for each project entails burdensome detail, as do expenditures for office supplies, janitorial services, etc. c. Donors are currently not charged for equipment replacement costs (depreciation), because a receipt cannot be produced. d. President and Executive Vice President salaries, as well as other support staff salaries, are difficult to accurately allocate to each project on a "time card". Examples presented are only limited by space considerations. The accounting staff often works seven days a week attempting to meet these demands. The accounting system can accommodate these demands with some rather minor changes, but can only be implemented with the cooperation of current and future donors. During the site visit, DAI assisted GFSIS in establishing an indirect cost recovery system, recommending allocation of administrative overhead pro-rata based on dollar amount of contract. An attempt should be made to implement this billing arrangement with existing donors. The administrative charges must be totally transparent to the donor, and would need to be adjusted as total dollar volume of contracts changed. As it is quite likely GFSIS will continue to contract with the US Government, the indirect cost recovery system should be established consistent with guidelines in OMB Circular A-122. Utilizing the US Government system should add credibility with other donors.

Implementing this change now would involve amendment to existing contracts, but regardless should be pursued as soon as possible. GFSIS recognizes some donors may resist this change, but also recognizes they may have to forego some contracts unless the donor is willing to fund its fair share of administrative costs.

Budgeting, accounting and expenditure control could be improved by adopting a "fund" accounting system. Currently all accounts are combined, with separate budgets and reporting

for each project. A fund accounting system can more easily meet the complex needs of the organization by establishing "funds" according to expenditure purpose. Budgeting and accounting would be done separately for each fund. I would recommend the following funds be established:

- (1) Administrative; This fund would encompass those expenses not readily attributable to specific projects.
- (2) Capital; This fund would encompass the organizations non-obligated assets, specifically reserves for equipment replacement and building improvements.
- (3) Project, with separate accounts within this fund for each project;
- (4) Enterprise; This fund would encompass revenue generating activities, such as printing and publications.
- (5) Endowment; This fund will be addressed in detail in the "Funding" portion of this report. It may well entail a separate organizational entity instead of a fund.

The fact that GFSIS has not experienced a misappropriation of funds is a testament to the integrity of the staff rather than to controls in place. As the organization grows, its controls must also recognize risk of loss. On the plus side, the organization utilizes electronic receipt and payment as much as possible, minimizing use of cash. Any expenditure beyond minimal cash disbursements from a relatively small petty cash fund requires two signatures, including the Executive Vice President. However, because of limited staff, one person has responsibility for both cash management and accounting. As the organization grows, these functions should be separated. In addition, proper expenditure controls can be established such that the Executive Vice President need not spend as much of his time as he now does (which is significant each day) on financial management. As a system of budgeting, expenditure controls, and reporting is further established, the goal should be a monthly report to management which can be confirmed by bank balances.

More sophisticated systems will heighten the need for Procedure Manuals. The current system functions smoothly because of the dedication and longevity of staff. The procedures are not documented, placing the organization at risk should present staff leave. The organization will need qualified assistance in developing procedure manuals. Development of the Budgeting and Accounting Manuals will complement the recommended fund accounting system and expenditure control system.

While on site, DAI has assisted GFSIS in review of its Administrative budget, resulting in recommendations for additional administrative personnel, identification of depreciation as an expense item, and needed funding for the Advisory Council to function.

2. Human Resources

GFSIS recognizes the importance of attracting and retaining high quality staff. Its future ability to conduct studies, attract Junior Fellows and interns, offer conferences that have value to attendees, and retain a position of influence in Georgia and the region is totally dependent on the organization's ability to maintain a stable, competent staff. The current activities and reputation of the organization are a testament to their ability to attract staff. As GFSIS has

grown, however, its ability to retain staff has not kept pace. There are two principal areas where improvement is needed.

First, which deserves the most attention, is the issue of funding, which will be discussed in more detail later. It is only important here to note that because of the nature of the revenue stream, GFSIS is not able to consistently pay staff. The ability to pay staff is dependent on cash flow from projects, a cash flow which is not always stable. Donors place restrictions on use of funds which may leave the organization without funding for positions necessary to the organization. Continuity of key staff is totally dependent on continually securing new funding sources.

Securing funding requires significant staff time in itself, and yet GFSIS does not have adequate staffing to meet this need. In the past, the President and Executive Vice President have devoted a great deal of their time to securing funding, but as the organization has grown, and the need for greater funding has consequently grown, greater demands are placed on their time to perform other tasks. It is essential to the future of the organization that it employ a Development Officer whose duties are to secure stable funding.

Secondly, the organization has a need for a documented Human Resources Policy, identifying employee and associate responsibilities and expectations as well as rights. GFSIS recognizes this need, but has not had the staff availability to develop the necessary procedures, job descriptions, employee, Junior Fellows, intern, and associate handbooks which are necessary to ensure continuance of a strong organization. This need is not immediate, but as the organization becomes more sophisticated and complex, the need will become greater.

3. Capital Assets

GFSIS has secured a tremendous building, well furnished with up to date technology and fixtures. The organization has also acquired vehicles necessary to accomplish its mission. Sustaining these excellent capital assets requires some changes in billings, and perhaps in organizational structure.

It is obvious to the organization that assets will depreciate and will someday need replacement. Accounts currently only reflect depreciation as a depletion of capital, without an expense item for development of a replacement reserve. While on site, DAI has assisted GFSIS in developing a cost recovery system to provide for asset replacement as necessary. Charges made for depreciation will be placed in the Capital Fund as a replacement reserve for equipment.

While not depreciating, (in fact, appreciating) the building is encumbered with a long term mortgage. Sustaining this facility is dependent not only on funding for adequate maintenance, but stable funding to make the mortgage payment. Any decline in project activity jeopardizes the ability to retain the facility. This brings us to the greatest issue in sustainability of GFSIS.

Funding

To become an institution with long-term sustainability, every organization needs a stable source of funding. Several references have already been made within this report identifying areas where lack of permanent financial support negatively affects GFSIS. Typically, think tanks are formed by the generosity of wealthy donors, established with endowments to provide permanent funding for the core staff and fixed expenses. GFSIS has not had this luxury. Other countries also have tax laws which encourage philanthropy, supporting a wide variety of organizations dependent on such generosity. Georgia has neither the tax laws to encourage support for NGOs, nor a culture of personal volunteerism or financial support for organizations dedicated to the common good.

DAI has discussed at great length with GFSIS possible sources of permanent financing for the necessary core to sustain the organization. Establishment of an indirect cost recovery system, and acceptance of that system by donors, will be a significant improvement, but still dependent on a steady flow of project contracts. An analysis of projected cash flow from existing contracts easily reveals that unless something changes, GFSIS would cease to exist in less than two years. The possible changes are (1) get more contracts, (2) spend less money (making #1 more difficult), and (3) securing permanent financing. GFSIS will continue seeking more contracts and will by necessity keep spending within revenue. Permanent financing is a more long term goal.

No single person within GFSIS has responsibility for grant and contract writing. This places tremendous demands on the time of the President and Executive Vice President, time that should be devoted to project fulfillment. As the organization grows, those demands also grow, necessitating an additional staff person to tend to the detail of organizational development. Most organizations the size of GFSIS employ a Development Officer for this purpose.

To be successful, a "think tank" must not be beholden to anyone. To provide clear, independent, unbiased policy recommendations, its core financing must also be independent. To accept money for the organizations' core financing needs from any individual, government, or corporation brings with it the biases and "baggage" of that source. That is one of the reasons why other credible think tanks have an endowment fund. GFSIS recognizes, after our discussion, the need to establish and fund its own endowment.

GFSIS is obviously not the only organization in Georgia that will benefit from establishing an endowment fund. Currently there are no provisions in Georgian law on their establishment. GFSIS should seek donor support to establish an endowment, particularly to provide policy recommendations to Parliament on proper provisions to be included in the law. It is likely the GFSIS endowment would be organized as a separate corporation, with authority outside that granted to foundations. The complexities and choices to be considered go well beyond the scope of this paper, and should be considered fully in cooperation and concurrent participation by Parliament.

DAI can only conclude that an endowment is a necessary goal for long-term sustainability of GFSIS. Georgia and the entire region needs the quality, independent analyses of critical policy issues that GFSIS now provides. To ensure that quality and independent analyses into the future requires stable independent funding that only an endowment can provide.

Advisory Board

This report noted earlier the legal requirement for GFSIS to have an Advisory Board, and the fact that the GFSIS Advisory Board is inactive. The Board has been inactive for two reasons, namely (1) lack of funding, and (2) lack of a clearly defined purpose. First, we will address purpose.

By definition, the purpose of an advisory board is to provide advice. Every organization needs and appreciates advice on a number of issues the organization faces. With proper selection of Advisory Board members, GFSIS can increase its influence in its areas of expertise. In addition, however, examination of Executive Boards and advisory boards of most sophisticated public purpose organizations quickly reveals an often unspoken purpose of fund raising. It is usual to select advisory board members not only for their intellect, but also for their ability to advance the organizations' sustainability. Advisory Board members should be selected for GFSIS with an eye toward increasing the organizations' contact with donors and potential benefactors. It may also be desirable to have the GFSIS Advisory Board serve as the Executive Board of the GFSIS Endowment Fund when that is established.

Funding for the Advisory Board should be considered as necessary as funding for a Development Officer. In fact they go hand in hand, with a common purpose. Funding the Advisory Board is an allowable expense under OMB Circular A-122, and should be considered a necessary item in the indirect cost recovery program.

RECOMMENDATIONS

As detailed in the text above, the following steps will enhance the sustainability of GFSIS.

1. Establish an indirect cost recovery system in accordance with OMB Circular A-122.
2. Establish a "fund" accounting system, as outlined in the text above.
3. Develop written Budgeting and Accounting Manuals
4. Develop automated expenditure control system.
5. Separate cash management function from accounting function when staffing levels permit.
6. Identify "Depreciation" as an administrative expense, and establish replacement reserve in a separate "Capital" fund.
7. Develop Personnel Manuals, including employee and affiliate handbooks and job descriptions.

8. Employ a Development Officer, with responsibility for grant and contract writing, and long-term financial stability.

9. Establish an Endowment Fund. This will entail establishment of authority for the endowment fund under Georgian law.

10. Secure funding to activate the GFSIS Advisory Board.

This concludes the report.